PUC Distribution Inc.
765 QUEEN STREET EAST, P.O. Box 9000
SAULT STE. MARIE, ONTARIO, P6A 6P2

May 29, 2012

Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON, M4P 1E4

Attention: Ms. Walli

Re: PUC Distribution Inc.'s Smart Meter Final Disposition Application
Responses to Board Staff and VECC Submission
EB-2012-0084

Please find enclosed PUC's reply submission Board Staff and VECC in the above noted proceedings. The responses have been electronically filed through the Board's web portal.

The primary contact for this application is Jennifer Uchmanowicz, Rates and Regulatory Affairs Officer. Phone number 705-759-3009 or email at Jennifer.Uchmanowicz@ssmpuc.com.

Sincerely,

J. Uchmanowicz

Jennifer Uchmanowicz
Rates and Regulatory Affairs Officer
PUC Distribution Inc.
Sault Ste. Marie Ont.
Email: Jennifer.uchmanowicz@ssmpuc.com
Phone: 705-759-3009

Cc: Michael Buonaguro
Counsel for VECC

2012 ELECTRICITY DISTRIBUTION RATES
PUC Distribution Inc.
Application for Disposition and Recovery of Costs Related to Smart Meter Deployment
EB-2012-0084

Reply Submission to Board Staff and VECC (Vulnerable Energy Consumers Coalition)

Introduction

PUC Distribution Inc. ("PUC") filed a stand-alone application ("the "Application") on March 5, 2012, seeking Board approval for the final disposition and recovery of costs related to smart meter deployment, offset by Smart Meter Funding Adder ("SMFA") revenues collected from May 1, 2006 to April 30, 2012. PUC requested approval of proposed Smart Meter Disposition Riders ("SMDR") and Smart Meter Incremental Revenue Requirement Rate Riders ("SMIRR") effective May 1, 2012. The Application is based on the Board's policy and practice with respect to recovery of smart meter costs.

The Board issued its Letter of Direction and Notice of Application and Hearing on March 30, 2012. The Vulnerable Energy Consumers' Coalition ("VECC") requested and was granted intervenor status and cost award eligibility. No letters of comment were received. The Notice of Application and Hearing established that the Board would consider the Application by way of a written hearing and established timelines for discovery and submissions. Board staff and VECC posed interrogatories to PUC on April 19, 2012. PUC filed its responses to Board staff and VECC interrogatories on May 3, 2012. Board staff submission was issued on May 17, 2012 and VECC's was issued May 25, 2012. PUC respectfully submits this document as a reply submission to the Board.

Issue #1

Updated Evidence

Board staff noted that the updated smart meter model filed with PUC's replies to Board staff interrogatories contains interest rates inputted in sheet 8 for the second, third and fourth quarters of 2012, in other words, beyond April 30, 2012. These inputs have caused the calculation of carrying charges on smart meter funding adder revenues to be applied beyond the proposed effective date of the SMDR. As the smart meter funding amounts are subtracted from historical incurred costs, Board staff estimates that PUC's total residual deferred revenue requirement to be recovered through the SMDR to be understated by approximately $21,460. Board staff suggests that PUC may wish to file an updated Smart Meter Model with its reply submission, to confirm and correct for the interest on the SMFA.

PUC Comments

PUC has included with this submission an updated smart meter model that corrects the understatement of the residual deferred revenue requirement as a result of the carrying charges on the SMFAs being calculated beyond April 30, 2012.

Issue# 2

Costs Beyond Minimum Functionality

In response to Board staff interrogatories #6 and 9a, PUC identified costs included in the application for CIS system upgrades, web presentment and customer education. In the Application, PUC noted that it participated in group RFPs through the District 9 group to select vendors for these activities.

Board staff notes that these costs are for functions beyond minimum functionality, as defined in the combined proceeding related to Smart Meters (EB-2007-0063), but were not identified as such in the Smart Meter Model or the Application. Board staff submits that PUC should file an updated Smart Meter Model that clearly separates the documented costs for functions related to minimum functionality and beyond minimum functionality, as defined in the combined proceeding. Board staff also submits that PUC has shown prudence in its procurement practices for selecting vendors for these activities.

PUC Comments

PUC has included with this submission an updated smart meter model that clearly separates the documented costs (CIS system upgrades, web presentment and customer education) for functions related to beyond minimum functionality as defined in the combined proceedings. The following adjustments were made in the model:

2012 Costs Beyond Minimum Functionality

	Amount	Original section in the model	Revised section in the model to reflect minimum functionality
CIS Enhancements	$10,000	1.5.2	1.6.3
Other AMI Capital – CIS Enhancements	$21,600	1.5.6	1.6.3
Customer communication and Education	$30,000	2.5.2	2.6.3
Web presentment OM&A	$3,750	2.5.6	2.6.3
Web presentment Capital	$54,050	1.5.6	1.6.3

2011 Costs Beyond Minimum Functionality

	Amount	Original section in the model	Revised section in the model to reflect minimum functionality
CIS Enhancements	$2,750	1.5.2	1.6.3
Customer communication and Education - Capital	$129,831	2.5.2	2.6.3
Customer communication and Education – OM&A	$3,641	1.5.2	1.6.3

2010 Costs Beyond Minimum Functionality

	Amount	Original section in the model	Revised section in the model to reflect minimum functionality
Customer communication and Education	$4,395	1.1.5	1.6.3

Issue #3

Level of Unaudited Costs

The Board's guideline G-2011-0001: *Smart Meter Funding and Cost Recovery – Final Disposition* ("the Guideline") states that the majority of costs (i.e. greater than 90%) sought for recovery should be audited. The table below summarizes the actual, unaudited actual and forecasted costs provided by PUC in the Application.

	Actual (2006-2010)	**Unaudited Actuals (2011)**	**Forecast (2012)**	**TOTAL**
Capital	$ 5,916,231	$ 381,188	$ 301,650	$ 6,599,069
OM&A	$ 174,486	$ 336,890	$ 295,483	$ 806,859
% of Total costs	82.24%	9.70%	8.06%	

Board staff and VECC estimates that 17.76% of the costs documented by PUC in the Application are unaudited. Board staff and VECC notes that if PUC were to provide audited costs for 2011 the level of audited costs would become greater than 90% of the total costs sought for recovery. Board staff suggests that PUC address whether or not its 2011 audit has been completed in its reply submission. If audited costs are available for 2011, Board staff submits that PUC should provide an updated smart meter model and reconcile any discrepancies between the audited and unaudited costs provided.

PUC Comments

PUC's 2011 audit is complete. Included with this submission is an updated smart meter model that includes the updated 2011 audited costs. The discrepancies between the audited 2011 costs and the forecast unaudited 2011 costs is a $2,375 overstatement of capital in the model and a $2,592 understatement of OM&A in the model. In the model for 2011 PUC has reduced capital in line item 1.1.1 by $2,375 and increased OM&A in line item 2.1.1 by $2,592. The revised smart meter model filed with this submission now has approximately 92% audited costs and is in accordance with the Boards Guidelines.

Issue #4

Cost Allocation Methodology

In its Application, PUC proposed class specific fixed charge SMDRs and SMIRRs for the residential, GS < 50 kW and GS > 50 kW customer classes. In response to Board staff IR #14, PUC confirmed that it used the following cost allocation methodology:

• Return (deemed interest plus return on equity) was allocated based on the number of smart meters installed by rate class;
• Amortization was allocated based on the smart meter costs by rate class.
• OM&A expenses were allocated based on the number of installed smart meters for each rate class.
• Payments in lieu of taxes (PILs) were allocated based on the revenue requirement allocated to each class before PILs; and
• Smart Meter Funding Adder revenues, including carrying charges, were allocated based on actual amounts collected from each class.

In response to VECC IR #8, PUC noted the following, when asked to provide capital costs for installed smart meters separately by customer class:

PUC does not have the data available to complete the smart meter revenue requirement model by rate class. In accordance with the G-2008-0002 guidelines, accounts 1555 and 1556 were established to track the capital and OM&A costs associated with the smart meter project. Costs were not set up by the impacted customer classes. Meter change outs to smart meters were determined by the existing metering configuration and service requirement (transformer rated, polyphase, etc.). Service requirement does not correlate to a specific rate class. For example, there may be GS < 50 customers with a "residential" meter configuration and Residential customers with a "GS<50" meter configuration. PUC did not categorize or track the capital and OM&A costs to a service location and installation, therefore, providing costs by rate class is not feasible.

Board staff notes that PUC's response to VECC IR #8 is contradictory to its response to Board staff IR #14 in that PUC states that it is unable to provide costs by rate class yet, it has allocated amortization to each class based on the smart meter costs per rate class. Board staff further notes that in PUC's response to VECC IR#2, it has provided the number of each meter type installed per rate class, as well as, an average meter cost per meter type. In addition, PUC has provided the smart meter funding adder revenues collected from each class, in response to VECC IR #8c, and provided a calculation of the pro-rated shared capital costs for the GS > 50 kW class, in response to Board staff IR #9d. Board staff observes that if PUC is able to prorate the shared capital costs for the GS > 50 kW class, it is reasonable to expect that it should be able to do so for the residential and GS < 50 kW classes, as well.

Board staff and VECC submits that cost causality should be the guiding principle when allocating costs to each class. Based on the information provided in response to Board staff's and VECC's interrogatories, Board staff submits that it appears that PUC has sufficient information to calculate the class specific revenue requirement. Board staff notes that such an approach would be consistent with the cost allocation methodology proposed by VECC and approved by the Board in PowerStream's 2012 smart meter cost recovery application (EB-2011-0128).

Board staff and VECC submits that PUC should update its cost allocation to the class specific revenue requirement approach, proposed by VECC, and provide updated calculations of the resulting SMDRs and SMIRRs.

<u>PUC Comment</u>

PUC utilized the class specific revenue requirement approach when calculating the SMDR's and the SMIRRs. PUC did not only pro-rate the shared capital costs for the GS> 50 kW rate class but also did the same for the residential and GS<50 kW rate classes. Recalculating the model by rate class would yield the same result as Table 1 and Table 2 in Tab1/ Schedule 5 of the rate application. PUC confirms it did use full cost causality and prorated all costs to each rate class.

PUC did note that when reviewing the calculation of the SMDR and the SMIRR the return (deemed interest plus return on equity) was not consistently allocated based on the number of smart meters installed by rate class. For the SMDR the return was allocated using the number of smart meters and for the SMIRR the return was allocated using smart meter costs. PUC proposes the most appropriate cost causality would be to base the allocation of the return on smart meter costs.

In this submission PUC is including an updated smart meter model that includes the proposed adjustments resulting from this submission and has recalculated the rate specific SMDR and SMIRR. The allocation of SMDR return has been changed to be based on smart meter costs. The resulting revised SMDRs are SMIRRs are below.

PUC has included an updated average costs per meter by rate class below to reflect the $179,000 reduction (Issue #5) in capital for 2012 and the $2,375 reduction in capital to reconcile to 2011 audited costs.

Average Costs Per Meter by Rate Class

Residential Meters		
Costs		Cost Per Meter
Total Capital Cost	4,553,156	
Number of Meters Installed	29,385	
Average Cost Per Meter		$ 154.95
General Service < 50kW		
Costs		Cost Per Meter
Total Capital Cost	1,575,613	
Number of Meters Installed	3,239	
Average Cost Per Meter		$ 486.45
General Service > 50kW		
Costs		Cost Per Meter
Total Capital Cost	288,925	
Number of Meters Installed	341	
Average Cost Per Meter		$ 847.29

Smart Meter Actual Cost Recovery Rate Rider - SMDR
Calculated by Rate Class

	Total	Residential	GS < 50	GS > 50
Allocators				
Average Smart Meter Unit Cost		$ 154.95	$ 486.45	$ 847.29
Smart Meter Cost	$ 6,417,694	$ 4,553,157	$ 1,575,612	$ 288,926
Allocation of Smart Meter Costs	100.00%	70.95%	24.55%	4.50%
Number of meters installed	32,965	29,385	3,239	341
Allocation of Number of meters installed	100.00%	89.14%	9.83%	1.03%
Total Return (deemed interest plus return on equity)	$ 867,237	$ 615,278	$ 212,916	$ 39,043
Amortization	$ 987,284	$ 700,448	$ 242,389	$ 44,448
OM&A	$ 513,968	$ 458,151	$ 50,500	$ 5,317
Revenue Requirement before PILs	$ 2,368,489	$ 1,773,877	$ 505,805	$ 88,808
PILs	$ 125,251	$ 93,807	$ 26,748	$ 4,696
Total Revenue Requirement 2006 to 2012	$ 2,493,740	$ 1,867,683	$ 532,553	$ 93,504
	100.00%	74.89%	21.36%	3.75%
Smart Meter Rate Adder Revenues	($2,251,263)	($1,981,111)	($247,639)	($22,513)
Smart Meter True-up	$ 242,477	$ 181,603	$ 51,782	$ 6,809
Metered Customers 2012	32,965	29,385	3,239	341
Rate Rider to Recover Smart Meter Costs (per month)	$ 0.61	$ 0.52	$ 1.33	$ 1.66

Smart Meter Actual Cost Recovery Rate Rider - SMIRR By rate Classs				
	Total	Residential	GS < 50	GS >50
Allocators				
Average Smart Meter Unit Cost		$ 154.95	$ 486.45	$ 847.29
Smart Meter Cost	$ 6,417,694	$ 4,553,157	$1,575,612	$ 288,926
Allocaiton of Smart Meter Costs	100.00%	70.95%	24.55%	4.50%
Number of meters installed	32,965	29,385	3,239	341
Allocation of Number of meters installed	100.00%	89.14%	9.83%	1.03%
Total Return (deemed interest plus return on equity)	$ 362,992	$ 257,531	$ 89,118	$ 11,594
Amortization	$ 489,295	$ 347,140	$ 120,127	$ 15,628
OM&A	$ 295,483	$ 263,394	$ 29,033	$ 2,725
Revenue Requirement before PILs	$ 1,147,770	$ 868,065	$ 238,278	$ 29,947
PILs	$ 61,706	$ 46,669	$ 12,810	$ 1,610
Total 2012 Incremental Revenue Requirement	$ 1,209,475	$ 914,733	$ 251,088	$ 31,557
Metered Customers	32,965	29,385	3,239	341
Rate Rider to Recover Smart Meter Costs	$ 3.06	$ 2.59	$ 6.46	$ 7.71

PUC has prepared a summary of the SMDR and SMIRR proposed in the Application and changes as a result of PUC's responses to interrogatories and the submissions can be found in the table below:

Class	SMDR ($/month, for 12 months)			SMIRR ($/month)		
	Original Application	Revised for Interrogatories	Further revised for Submission	Original Application	Revised for Interrogatories	Further revised for Submission
Residential	$0.59	$0.51	$0.52	$2.77	$2.63	$2.59
GS<50 kW	$1.04	$0.90	$1.33	$6.65	$6.58	$6.46
GS > 50kW	$1.24	$1.07	$1.66	$7.83	$7.79	$7.71

Issue #5

Treatment of 2012 Costs

On Sheet 2 of the Smart Meter Model, PUC provided $129,000 in forecasted smart meter capital costs and $50,000 in installation costs for 2012 but did not include the number of forecasted smart meter installations for the residential and GS < 50 kW classes for that year. In response to Board staff IR #9c, PUC noted that the $129,000 in forecasted smart meter capital costs included a $50,000 allowance to complete deployment of smart meters, including new installations, conversion from bulk to individual meters and Elster A3D memory upgrades. PUC estimated that the number of new installations would be in the range of 150 to 200, based on historical trends but noted that the conversion from bulk to individual meters was less predictable.

This approach differs with what the Board has approved for final smart meter disposition in recent applications. In PowerStream's 2011 smart meter application (EB-2011-0128), the utility included costs to the end of 2011. In Kenora Hydro's 2011 cost of service application (EB-2010-0135), smart meter costs to the end of 2010 were included in the SMDR, and capital and operating costs for 2011 were included in the test year rate base and revenue requirement. Similarly, in Hydro Ottawa's 2012 cost of service application (EB-2011-0054), only costs to the end of 2011 were included in the determination of the SMDR.

In other smart meter stand-alone applications currently before the Board, other distributors have included the costs of forecasted new smart meters installed due to customer growth in the determination of the SMIRR.

Board staff notes that both approaches set out above are acceptable, so long as the costs and the demand (number of customers) are forecasted for the same period and the level of the forecasted costs is in line with years where audited costs are available. In the long run, both approaches should be equivalent. As PUC has noted some challenges in estimating the number of meter installations and is scheduled to file its cost of service application for 2013 rates, Board staff and VECC submits that it may be more appropriate for PUC to delay recovery of these forecasted costs until its next rebasing application, at which point the smart meter installations will be treated as regular capital additions.

PUC Comments

PUC agrees with the challenges with estimating the number of meter installations and agrees to delay the recovery of these forecast costs until the next rebasing application at which point the smart meter installations will be treated as regular capital additions.
Included with this submission is an updated smart meter model that excludes the $129,000 in forecasted smart meter capital costs and $50,000 in installation costs for 2012.

Issue #6

PUC included estimated OM&A expenditures of $356,733 for 2012 in the smart meter model. In response to Board staff IR #1a, PUC identified which of those costs were for ongoing activities and which were expected to be one-time expenditures in 2012 only. PUC identified $30,000 in Customer Communication costs and $5,000 for expenses associated with meter base repairs for non-mandated meters as the one-time expenditures included in the 2012 OM&A expenses. PUC also identified $40,000 in Business Process Redesign costs and $45,000 in Program Management costs that it expected would be ongoing OM&A expenditures moving forward.

Board staff notes that the 2012 costs in the smart meter model form the basis of the calculation for the annualized incremental revenue requirement that is recovered through the SMIRR. Board staff notes that the SMIRR is to be in effect until the distributor's next cost of service application and, as such, one-time OM&A expenditures should not be included in its calculation. Given that PUC is scheduled to file its cost of service application for 2013 rates, Board staff takes no issue with PUC's inclusion of one-time OM&A expenses in the calculation of the SMIRR as it will only be in effect for one year.

Board staff notes that PUC has completed the majority of its smart meter deployment and will have transitioned all mandated customers to TOU pricing by the end of May 2012. As PUC is seeking final disposition of costs, Board staff questions the need for a combined $85,000 in estimated on-going Business Process Redesign and Program Management OM&A expenses. PUC may wish to further address why it believes such levels of Business Process Redesign and Program Management expenses will be warranted, going forward, in its reply submission.

<u>PUC Comments</u>
PUC has completed its smart meter deployment and will have all customers transitioned to TOU pricing by the end of May 2012, however, the business process redesign and program management costs will continue throughout 2012 and going forward.

The $40,000 budgeted in 2012 for business process redesign is inclusive of process modification necessitated as a result of the upgrade to both the MDM/R and CIS systems in order to meet the requirements of Measurement Canada in displaying register reads on customer bills as well as ongoing business process redesign and staff training for the overall transition to TOU billing.

The $45,000 in program management pertains specifically to a contract that PUC has with a consulting firm; namely util-assist for sync operator services.

PUC anticipates that some business process redesign will continue past 2012 although the cost will be less in 2013 and program management costs will be ongoing.

PUC proposes business process redesign costs and project management costs should be included in the SMIRR as these are real costs for 2012. Although the majority of the program management and business redesign costs will be ongoing it does not negate the underlying principle of the SMIRR which is to calculate the proxy for the incremental change in the distribution rates that would have occurred if the assets and operating expenses were incorporated into the rate base and revenue requirement. The SMIRR will cease at the time of PUC's 2013 cost of service rate application when the projected operating costs, including any on-going business process redesign and program management costs will be forecast and explicitly incorporated into the rate base and revenue requirement.

\- All of which is respectfully submitted -